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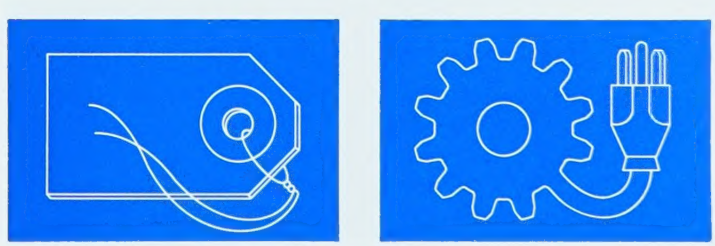
White Consolidated Industries, Inc./1973 Annual Report

WCI



White Consolidated Industries, Inc.

GENERAL OFFICES
11770 Berea Road, Cleveland, Ohio 44111

TRANSFER AGENTS
The Cleveland Trust Company, Cleveland
First National City Bank, New York

REGISTRARS
The Chase Manhattan Bank, New York
Union Commerce Bank, Cleveland

GENERAL COUNSEL
Squire, Sanders & Dempsey, Cleveland

ACCOUNTANTS
Ernst & Ernst, Cleveland

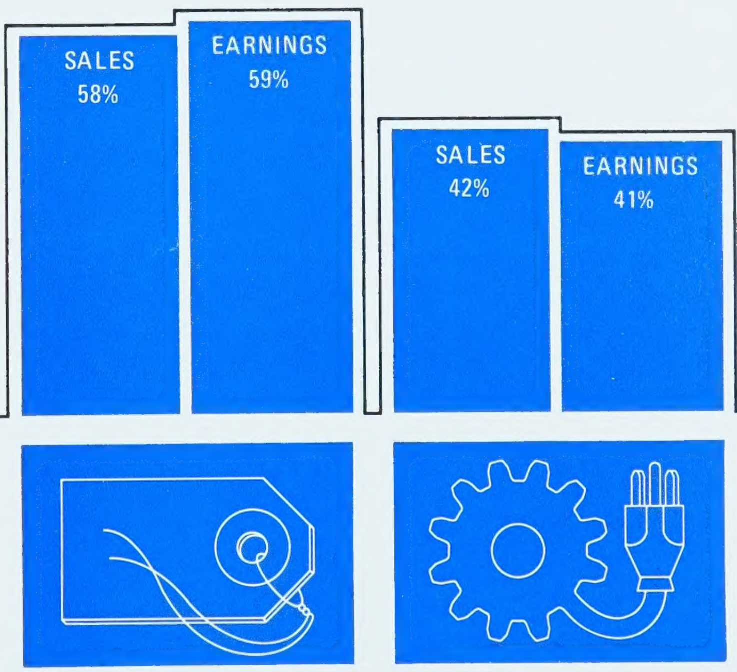
The Annual Meeting of White Consolidated will be held at 2:00 p.m. on Tuesday, May 7, 1974 at the Corporation's headquarters at 11770 Berea Road, Cleveland, Ohio.

Highlights of Operations and Financial Position

OPERATING HIGHLIGHTS FOR THE YEAR	1973	1972
Net sales	**$825,625,594**	$728,124,038
Net income	**$ 35,370,876**	$ 30,177,097
Net income per common share based on average shares outstanding	**$2.75**	$2.22
Net income per common share assuming full dilution	**$2.44**	$2.00

FINANCIAL POSITION AT YEAR END		
Total assets	**$597,419,479**	$558,836,350
Working capital	**278,349,803**	252,809,738
Ratio of current assets to current liabilities	**3.2:1**	3.0:1
Long-term notes and mortgages	**152,354,194**	129,368,093
Stockholders' equity	**242,069,488**	226,624,570
Common shares outstanding (net of treasury stock in 1973)	**11,073,144**	11,492,936
Number stockholders — common stock	**23,505**	24,582
Number of employees	**23,400**	21,500

PERCENTAGE CONTRIBUTION BY PRODUCT GROUPS TO
1973 SALES AND EARNINGS.



Products For The Home | **Machinery & Equipment For Industry**

To the Shareholders:

March 15, 1974

Several records were achieved in 1973, a year in which your company continued its progress toward goals of increased sales, earnings and return to you the shareholders. We are pleased with the results.

RESULTS. On record sales of $825,626,000, net income was a record $35,371,000 or a record $2.75 per common share. This compares with 1972 sales, net income and income per common share of $728,124,000, $30,177,000 and $2.22 respectively. The percentage increases were sales up 13.4%, net income up 17.2% and income per common share up 23.9%. All per share figures are based upon the average number of shares outstanding during the year.

Both the consumer products sector and the capital goods sector contributed to the overall results. Most of the WCI companies performed up to or beyond forecast. Nonetheless, we are directing all our efforts toward improvement, both individual and overall. The basics which have earned us the results we now report with pride, can never be neglected: continued attention to the engineering of our plants and products; close supervision of the manufacturing and marketing of our products; close, careful and continuous review of our capital improvement programs to improve our products, plants, property and equipment; and finally control, in the fullest sense of the word, of our finances and proper utilization of our financial resources.

OUTLOOK. We look forward to 1974 with more optimism perhaps than some economic theorists. In the consumer goods sector we are aware that there are many factors which could cause or contribute to a year to year decline in absolute unit volume in some of our product lines between 1973 and 1974. We are also aware of the pressures on profit margins which virtually every industrial enterprise in the world, including our own, is experiencing. Your management has performed under pressure in the past and under circumstances which at best might be called difficult. Therefore, while we are aware of the difficulties, they have been considered in our projections, we are not overawed by them, and we do expect good results from the consumer goods sector in 1974.

The capital goods sector is by its nature considerably less volatile and less subject to sudden swings in public attitudes. In all events we have substantial and improving backlogs, incoming order rates and shipments. Therefore, despite the general problems and pressures affecting this part of our business, we can and do expect superior performance, barring unforeseen contingencies.

1973 might well have been even better but for the fact that progress was hampered by certain raw material and components shortages, by delivery problems, by the energy crisis, by the government's economic control system and by other factors most of which were not within our control. We can expect some more of the same in 1974. Nevertheless, we reiterate our conviction that company-wide, we will perform well and achieve good results in 1974.

INTERNATIONAL. In our international operations, our 90% owned Canadian company, WCI Canada Limited, again showed impressive results in its fiscal year which ended September 30, 1973. This company earned on a consolidated basis $6,321,000 in 1973 as compared with $4,487,000 on a combined basis for the previous fiscal year. Our operations in other parts of the world have also done well, except that the economic situation, including the three-day work week in England, did have a material adverse effect on the operations of Kelvinator Ltd. in the last quarter. Nevertheless, we still performed satisfactorily overall.

CAPITAL EXPENDITURES. A word or two about capital spending. The need for greater efficiency, better productivity and improved product quality cannot be overstated and more significantly cannot be ignored. We made substantial capital improvements in 1973 and expect to continue at about the same level of expenditure in 1974. Each such expenditure is studied carefully as to its justification with a view toward near term profit return, as well as product improvement. This is our investment in the future and is essential to increased internal growth and improved profitability.

LABOR RELATIONS. We recognize also that our labor relations are an important factor in our growth and progress. We are continually involved in the bargaining process and are happy to report that 1973 was a year virtually unmarked by labor disputes throughout the entire company. As we customarily caution you, the results of labor negotiations cannot be foretold. Nevertheless, with a genuine spirit of give and take on both sides in the collective bargaining process, we have no reason to believe that we cannot reach agreements beneficial to both management and labor in the negotiations which are taking place or will take place this year as well.

MANAGEMENT CHANGES. Our management ranks have been enriched this year with the appointment of Mr. Brian J. Connor, Jr. as Director of Advertising, Mr. Harry Cox as Vice President and Treasurer, Mr. John J. Lennon as Vice President-Administration, Mr. Robert J. Schenk as Vice President and Controller and Mr. Harry D. Weller, Jr. as Vice President-Marketing. Each of these gentlemen brings with him a dimension of expertise which will be used to solid advantage in your company.

We announce with regret the retirement from the active service of the corporation of Mr. Willard A. Giddens, Senior Vice President, Treasurer and Director. Mr. Giddens retires after 26 years of loyal, dedicated and effective service. He has made significant contributions to our company over the years. He leaves a host of friends.

It is with deep regret that we record the death, on October 31, of Leo R. Kundtz. He served your company as a director, with dedication, for more than 36 years.

FINANCIAL. The financial condition of your company continues to be a matter of pride with us. We have better control of inventory and receivables. Our current ratio at year end was improved over the previous year end. Our debt structure was satisfactory, stockholders' equity has continued to improve as has working capital; in fact, it generally can be said that in all major respects your company's balance sheet has been improved.

DIVIDENDS. During the year, your directors – for the second successive year – raised the quarterly cash dividend per share from $.125 to $.15, an increase of 20%. As previously stated, we continue to review our dividend policy and make recommendations to the Board with a view towards maximum yield to the shareholders consistent with earnings and the cash needs of a company dedicated to growth.

We extend our thanks to you, to all our employees, to our customers and to our managers, all of whom make up the successful enterprise which is WCI. You and they in turn have our pledge to do all we can to continue to follow the patterns for excellence which, we believe, are responsible for this year's results and which will be responsible for the future successes which we all strive to achieve.

By Order of the Board of Directors.

E. Giddings

Chairman of the Board
and Chief Executive Officer

R H Holdt

President and
Chief Operating Officer

Review of Operations

Products for the home, which include both major appliances and sewing machines, contributed some 58% of White Consolidated's total 1973 sales and about 59% of 1973 earnings. This compares to 56% of sales and 62% of earnings for 1972.

Major appliances include a broad line of ranges, both gas and electric; refrigerators and freezers; washers and dryers; dishwashers; air conditioners; and space heaters.

These products are manufactured by WCI companies and marketed in the United States and Canada under such well-known names as Gibson, Kelvinator, Perfection, Leonard and Roy. In addition, private label appliances for such companies as Sears Roebuck & Company, Montgomery Ward, J. C. Penney, and The T. Eaton Company are manufactured by various White Consolidated companies including our Franklin Manufacturing Company which sells only to private label merchandisers. The consumer products group is also highlighted by a broad line of sewing machines, the company's original product line.

Sewing machines are marketed under such well-known names as White, Elna, Domestic, Hilton and Universal and are manufactured to rigid engineering specifications and designs by manufacturing concerns in Switzerland and Japan.

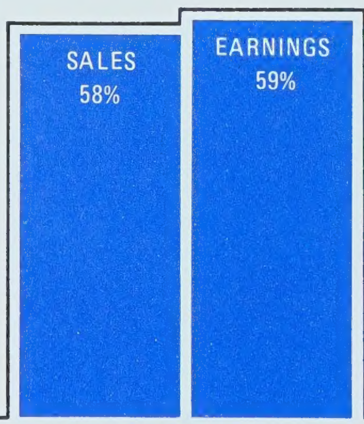
Recent Events. In December, White Consolidated acquired the business and facilities of the Athens Stove Works, Inc., Athens, Tennessee. This move was designed to add greater dimension to the Corporation's line of gas and electric ranges.

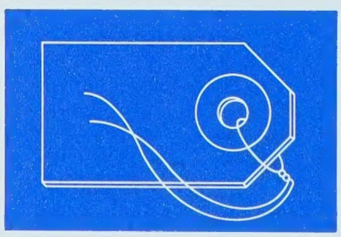
Manufacturing Facilities. WCI consumer products are manufactured by ten major plant facilities in the United States and Canada. Some of these facilities are: Kelvinator, Inc., with more than 1,800,000 square feet of manufacturing space in Grand Rapids, Michigan; the Greenville, Michigan manufacturing facility of Gibson Products Corporation, with more than a million square feet of manufacturing space; and the St. Cloud, Minnesota plant of Franklin Manufacturing Co. with more than one-half million square feet of space.

The Franklin facility provides an excellent example of a plant which has been converted to a single-line satellite operation, and concentrated with a high degree of mechanization and automation to increase productivity and reduce costs. This plant now manufactures freezers exclusively — while other Franklin product lines have been relocated to other manufacturing locations within WCI.

Outlook. Many economic indicators suggest a flat or modest decrease in the demand for consumer durable goods in at least the first half of 1974; this seems to be particularly true of major appliances.

WCI's own internal indicators, however, based on current demand from distributors and dealers, plus demand from private label customers, tend to diminish some of this general pessimism. Nonetheless, the Corporation is fully cognizant of the pressures, both real and psychological, on consumer spending in the near term.





Review of Operations

Machinery and equipment, during 1973, contributed 42% of total WCI sales and 41% of its earnings. This compares to 44% of sales and 38% of earnings during 1972.

These products are sold to such basic industries as those engaged in the production of metals and textiles; the communications industry; construction; processing; as well as to broad general metalworking and manufacturing industries.

Included are such products as machine tools (manufactured by Bullard and Lees-Bradner); steel mill equipment (Blaw-Knox and Aetna-Standard); textile preparatory and finishing equipment (Whitin and Scott & Williams); printing equipment (ATF, Davidson and King Press); road construction machinery (Blaw-Knox); valves, controls and related process equipment (Copes-Vulcan, Sarco, Jerguson); and literally scores of other products.

A complete directory of all WCI companies and their principal products is found beginning on page 20 of this report.

Recent Events. In December, White Consolidated acquired the business and facilities of The Duraloy Company, Scottdale, Pennsylvania, and its subsidiary companies, the Walmil Co., Troy Michigan, and the A & B Foundry Co., Connellsville, Pa. This acquisition will provide increased penetration of the petrochemical market for high temperature castings.

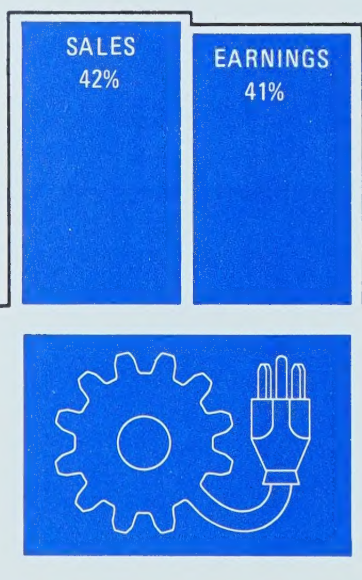
Manufacturing Facilities. As with the companies which manufacture WCI's consumer products, the Corporation has invested many millions of dollars in the planned expansion and modernization of those of its companies which manufacture machinery and equipment for industry. (For all of its divisions and subsidiaries, White Consolidated spent more than $25 million in 1973 for expansion and modernization of facilities, nearly double its 1972 expenditures.)

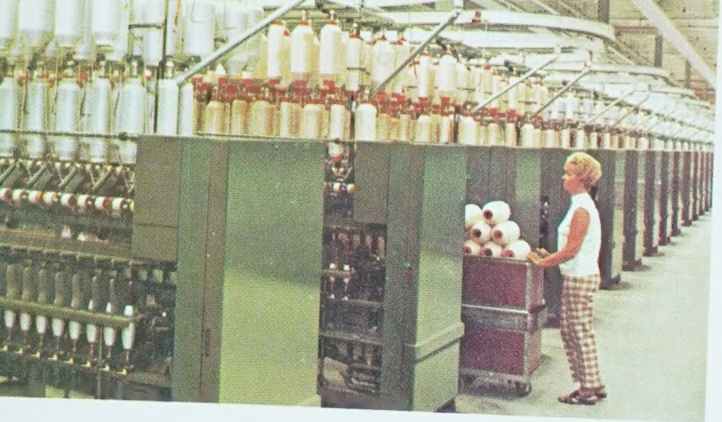
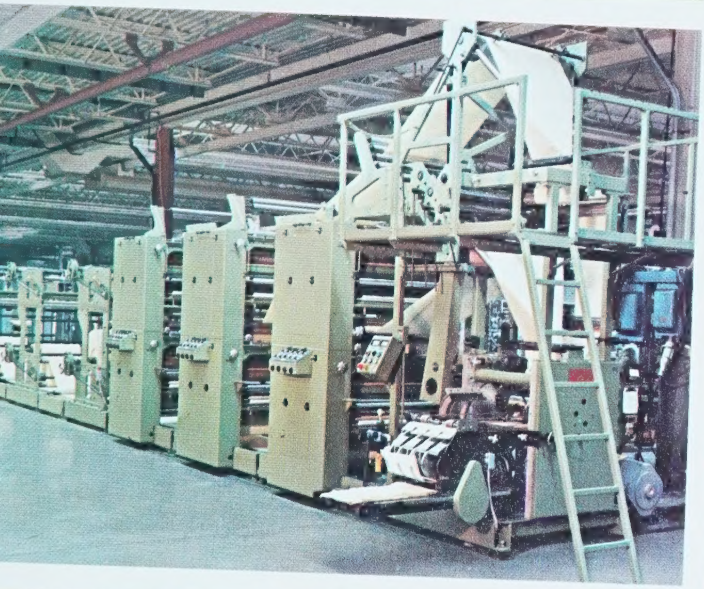
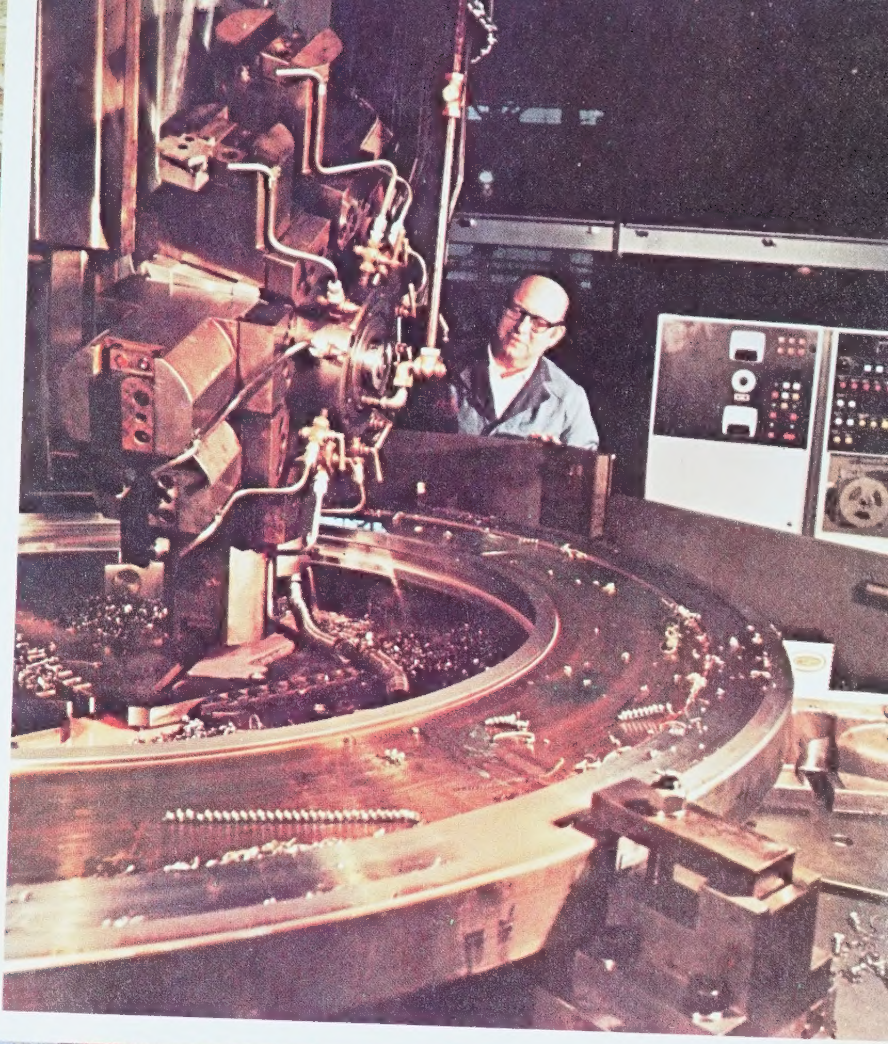
Among its larger facilities for manufacture of capital equipment are those of the Bullard Company in Bridgeport, Connecticut, with more than one million square feet of manufacturing space; and the Whitin Machine Works facility in Whitinsville, Massachusetts, with nearly two million square feet of manufacturing facility.

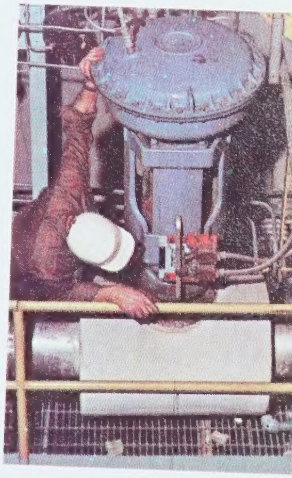
Outlook. The capital goods sector of WCI business has excellent prospects for 1974 with substantial backlogs for most of its companies.

This is particularly true of machine tools and textile preparatory equipment. In addition, both printing and steel mill equipment expect another good year in 1974, up from 1973 levels; and road construction machinery will be sold into foreign markets for the first time in 1974.

Finally, valves, controls and related equipment are expected to contribute in increasing measure to 1974 results due to ever rising demand for such products by production/processing industries including energy producing facilities.



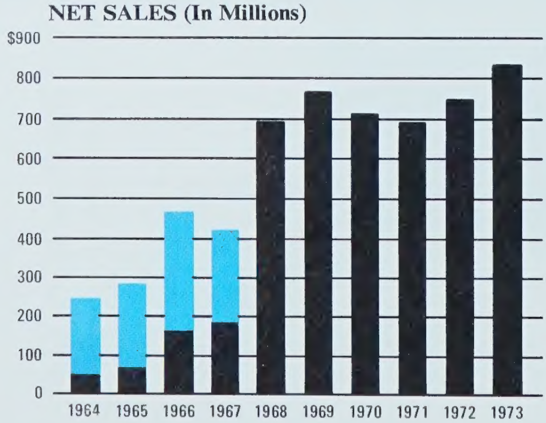


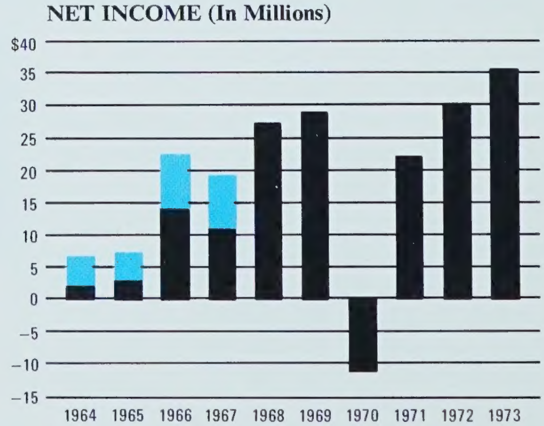
Ten Year Record

WHITE CONSOLIDATED INDUSTRIES, INC. AND SUBSIDIARIES

	1973	1972	1971	1970
Net Sales	**$825,625,594**	$728,124,038	$694,313,862	$709,340,767
Net Income (Loss)	**35,370,876**	30,177,097	22,480,626	(10,617,255)
Net Income (Loss) Per Share of Common Stock — Note 1	**2.75**	2.22	1.55	(1.35)
Cash Dividends Paid:				
Common	**6,144,342**	4,486,158	4,257,658	4,121,114
Preferred	**4,569,944**	4,651,170	4,707,994	4,724,126
By Pooled Companies Prior to Acquisition	**—0—**	—0—	—0—	—0—
Total Cash Dividends Paid	**10,714,286**	9,137,328	8,965,652	8,845,240
Common Stock Dividends Paid	**—0—**	5%	5%	—0—
Working Capital	**278,349,803**	252,809,738	291,809,709	215,503,070
Ratio of Current Assets to Current Liabilities	**3.2:1**	3.0:1	3.6:1	1.9:1
Stockholders' Equity	**242,069,488**	226,624,570	206,130,255	190,477,139
Book Value Per Share of Common Stock — Note 2	**15.34**	13.06	11.22	9.87

Note 1 After provision for dividends paid on Preferred Stock and based on the average number of common shares outstanding during the year adjusted to give effect to stock dividends paid and the 2-for-1 stock splits in 1968 and 1966.



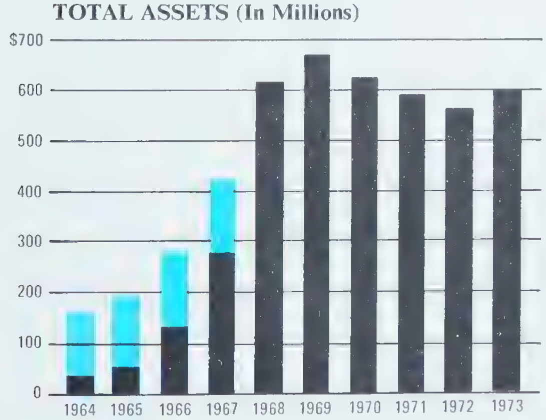


As Originally Reported *Adjusted for Companies Acquired in Poolings of Interests*

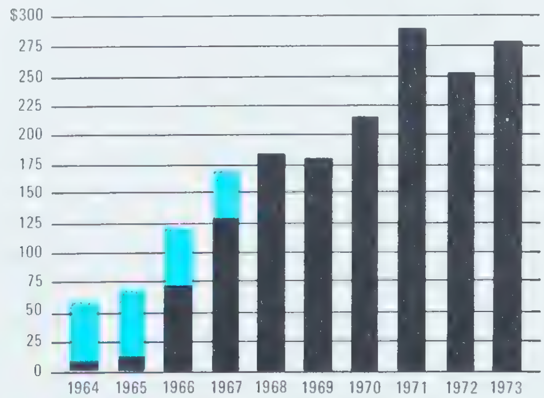
1969	1968	1967	1966	1965	1964
$767,601,408	$694,868,393	$415,177,014	$453,739,927	$273,446,946	$239,721,473
29,853,169	27,935,616	19,883,921	23,591,185	6,963,640	6,305,959
2.22	2.12	1.41	1.92	0.44	0.35
3,955,648	3,079,236	508,541	—0—	—0—	—0—
4,718,574	2,958,168	914,784	764,382	369,326	415,177
—0—	1,678,854	3,476,845	3,183,170	3,094,918	3,007,604
8,674,222	7,716,258	4,900,170	3,947,552	3,464,244	3,422,781
8%	2%	6%	5%	—0—	—0—
184,086,794	185,186,775	172,654,615	120,834,400	64,822,911	60,087,669
2.0:1	2.2:1	2.5:1	2.6:1	2.2:1	2.3:1
210,063,954	188,657,964	161,662,969	141,590,407	87,418,557	83,419,660
11.60	9.72	7.38	6.01	2.90	2.48

Note 2 Adjusted to give effect to stock dividends paid and the 2-for-1 stock splits in 1968 and 1966.

TOTAL ASSETS (In Millions)



WORKING CAPITAL (In Millions)



Consolidated Balance Sheet

WHITE CONSOLIDATED INDUSTRIES, INC. AND SUBSIDIARIES

	December 31 1973	December 31 1972
ASSETS		
CURRENT ASSETS		
Cash	**$ 28,148,712**	$ 17,418,013
Trade receivables (less allowance of $3,707,212 in 1973 and $3,486,084 in 1972)	**148,642,662**	143,580,821
Inventories	**223,211,137**	214,417,097
Prepaid expenses	**3,073,009**	2,916,159
TOTAL CURRENT ASSETS	**403,075,520**	378,332,090
INVESTMENTS AND OTHER ASSETS		
Investments in foreign companies	**7,900,313**	7,102,941
Deferred charges and other assets	**13,835,250**	14,392,843
Excess of cost over purchased net assets	**13,493,989**	13,493,989
	35,229,552	34,989,773
PROPERTY, PLANT, AND EQUIPMENT		
Land	**6,231,760**	5,466,782
Buildings	**107,713,113**	101,957,766
Machinery and equipment	**174,950,460**	165,558,960
	288,895,333	272,983,508
Less allowances for depreciation and amortization	**129,780,926**	127,469,021
	159,114,407	145,514,487
	$597,419,479	$558,836,350

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31 1973	1972
CURRENT LIABILITIES		
Trade accounts payable	**$ 63,366,778**	$ 43,464,551
Other payables and accruals	**41,911,448**	38,378,602
Accrued and deferred income taxes	**12,923,023**	21,986,764
Current maturities of long-term notes and mortgages	**6,524,468**	21,692,435
TOTAL CURRENT LIABILITIES	**124,725,717**	125,522,352
LONG-TERM NOTES AND MORTGAGES	**152,354,194**	129,368,093
CONVERTIBLE SUBORDINATED DEBENTURES	**51,549,900**	51,551,500
DEFERRED INCOME TAXES AND LONG-TERM RESERVES	**26,720,180**	25,769,835
STOCKHOLDERS' EQUITY		
Preferred Stock	**72,179,650**	76,507,350
Common Stock — par value $1 a share: Authorized 50,000,000 shares Outstanding 11,507,644 shares in 1973 and 11,492,936 shares in 1972	**11,507,644**	11,492,936
Other capital	**89,462,874**	88,249,064
Retained income	**75,031,810**	50,375,220
	248,181,978	226,624,570
Less cost of 434,500 shares of Common Stock held in treasury	**6,112,490**	—
	242,069,488	226,624,570
	$597,419,479	$558,836,350

See notes to financial statements.

Statement of Consolidated Income

WHITE CONSOLIDATED INDUSTRIES, INC. AND SUBSIDIARIES

	Year Ended December 31	
	1973	1972
Net sales	**$825,625,594**	$728,124,038
Other income — net	**7,452,882**	8,395,587
	833,078,476	736,519,625
Costs and expenses:		
Cost of products sold	**679,579,480**	594,423,309
Selling, general, and administrative expenses	**73,476,095**	68,030,552
Interest	**17,874,025**	18,526,188
	770,929,600	680,980,049
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	**62,148,876**	55,539,576
Income taxes	**27,305,000**	25,362,479
INCOME BEFORE EXTRAORDINARY ITEMS	**34,843,876**	30,177,097
Extraordinary items	**527,000**	—
NET INCOME	**$ 35,370,876**	$ 30,177,097
Per common share based on average shares outstanding:		
Income before extraordinary items	**$2.70**	$2.22
Extraordinary items	**.05**	—
Net income	**$2.75**	$2.22
Per common share assuming full dilution by conversion of debentures and exercise of dilutive options:		
Income before extraordinary items	**$2.40**	$2.00
Extraordinary items	**.04**	—
Net income	**$2.44**	$2.00

See notes to financial statements.

Statement of Consolidated Common Stock, Other Capital and Retained Income

WHITE CONSOLIDATED INDUSTRIES, INC. AND SUBSIDIARIES

	COMMON STOCK		OTHER	RETAINED
	SHARES	AMOUNT	CAPITAL	INCOME
Balance January 1, 1972	11,470,109	$10,923,914	$75,284,965	$ 42,495,476
Net income				30,177,097
Dividends:				
Cash:				
Serial Preferred Stock — $3.00 a share				(4,651,170)
Common Stock — $.39 a share				(4,486,158)
In Common Stock — 5%		547,249	12,612,776	(13,160,025)
Common Stock sold under stock option plans	22,029	20,980	266,279	
Adjustment relative to conversion of debentures	798	793	19,949	
Redemption of Preferred Stock			65,095	
Balance December 31, 1972	11,492,936	11,492,936	88,249,064	50,375,220
Net income				35,370,876
Cash dividends:				
Serial Preferred Stock — $3.00 a share				(4,569,944)
Common Stock — $.55 a share				(6,144,342)
Common Stock sold under stock option plans	14,649	14,649	141,771	
Adjustment relative to conversion of debentures	59	59	1,497	
Redemption of Preferred Stock			1,070,542	
Balance December 31, 1973	11,507,644	$11,507,644	$89,462,874	$ 75,031,810

See notes to financial statements.

Statement of Consolidated Changes in Financial Position

WHITE CONSOLIDATED INDUSTRIES, INC. AND SUBSIDIARIES

	Year Ended December 31	
	1973	1972
SOURCE OF FUNDS		
From operations:		
Income before extraordinary items	**$ 34,843,876**	$ 30,177,097
Items not affecting working capital:		
Depreciation and amortization	**11,984,376**	12,060,942
Amortization of deferred charges	**3,541,669**	4,038,692
Noncurrent deferred income taxes	**242,578**	1,273,035
Equity in net income of foreign companies, less dividends received	**(797,372)**	(408,910)
Totals from Operations Excluding Extraordinary Items	**49,815,127**	47,140,856
Extraordinary items	**527,000**	—
Totals from Operations	**50,342,127**	47,140,856
Decrease in working capital	—	38,999,971
Proceeds from long-term notes and mortgages	**57,018,744**	—
Sales and retirements of property, plant, and equipment — net	**5,133,674**	1,952,056
Proceeds from stock options and conversion of debentures	**157,976**	308,001
Other — net	**533,253**	799,369
	$113,185,774	$ 89,200,253
APPLICATION OF FUNDS		
Businesses purchased in 1973, less net current assets acquired of $6,255,100:		
Property and other assets acquired, less long-term debt assumed ($323,390)	**$ 5,883,044**	$ —
Additions to property, plant, and equipment	**24,662,012**	16,418,761
Cash dividends paid	**10,714,286**	9,137,328
Repayment of long-term notes and mortgages	**34,032,643**	57,005,963
Purchase of Common Stock for treasury	**6,112,490**	—
Preferred Stock redemption	**3,257,158**	853,455
Additions to deferred charges and other assets	**2,984,076**	5,784,746
Increase in working capital	**25,540,065**	—
	$113,185,774	$ 89,200,253

STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION — CONTINUED

	Year Ended December 31	
	1973	1972
CHANGES IN THE COMPONENTS OF WORKING CAPITAL ARE SUMMARIZED AS FOLLOWS		
Increase (decrease) in current assets:		
Cash	**$ 10,730,699**	$(27,680,829)
Trade receivables	**5,061,841**	13,889,399
Inventories	**8,794,040**	1,716,096
Prepaid expenses	**156,850**	720,155
Recoverable — deferred income taxes	**—**	(15,000,000)
Increase (decrease) in current assets	**24,743,430**	(26,355,179)
Decrease (increase) in current liabilities:		
Trade accounts payable	**(19,902,227)**	1,709,368
Other payables and accruals	**(3,532,846)**	(3,371,495)
Accrued and deferred income taxes	**9,063,741**	(13,768,581)
Current maturities of long-term notes and mortgages	**15,167,967**	2,785,916
Decrease (increase) in current liabilities	**796,635**	(12,644,792)
INCREASE (DECREASE) IN WORKING CAPITAL	**$ 25,540,065**	$(38,999,971)

See notes to financial statements.

Accountants' Report

Stockholders and Board of Directors
White Consolidated Industries, Inc.
Cleveland, Ohio

We have examined the consolidated financial statements of White Consolidated Industries, Inc. and subsidiaries for the years ended December 31, 1973 and 1972. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the ability of the Corporation to successfully maintain its claim for ordinary loss treatment for federal income tax purposes in connection with the sale of capital stock of another company as explained in Note G, the accompanying balance sheet and statements of income, common stock, other capital and retained income and changes in financial position present fairly the consolidated financial position of White Consolidated Industries, Inc. and subsidiaries at December 31, 1973 and 1972, and the consolidated results of their operations, changes in stockholders' equity, and consolidated changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst + Ernst

Cleveland, Ohio
February 21, 1974

Notes to Financial Statements

WHITE CONSOLIDATED INDUSTRIES, INC. AND SUBSIDIARIES
December 31, 1973 and 1972

NOTE A — ACCOUNTING POLICIES AND PRACTICES

The Corporation's accounting and reporting policies conform to generally accepted accounting principles and to industry practices on a consistent basis between periods. Principal accounting policies and practices are described below.

Consolidation:

The consolidated financial statements include the accounts of the Corporation and all of its domestic and Canadian subsidiaries. Investments in nonconsolidated foreign companies representing more than twenty percent of voting securities have been accounted for under the equity method, which recognizes currently its share of the income or loss in the investee company. Investments in companies which the Corporation's ownership is twenty percent or less are carried at cost and income is recognized as dividends are received.

Accounts of foreign companies and Canadian subsidiaries have been translated at appropriate rates of exchange, and the resulting gains or losses (which are not material in amount in either year) are reflected in operations. Upon consolidation, all significant intercompany items and transactions have been eliminated.

In December, 1973, the Corporation purchased the assets and business of The Duraloy Company and Athens Stove Works, Inc. The purchase method of accounting has been used to record these transactions, and accordingly, their operations (not material in amount) since the date of their respective acquisition have been included in the statement of consolidated income.

Inventories:

Inventories are priced at the lower of cost (principally first-in, first-out) or market.

Certain of the Corporation's subsidiaries record major long-term construction contracts by the percentage-of-completion method where income is recognized based on the estimated stage of completion of individual contracts as determined by the Corporation's engineers. Contract work in process represents the excess of accumulated costs and progress profits over billings on uncompleted contracts.

Property and depreciation:

Property is carried at cost and includes expenditures which substantially increase the useful life of existing assets. Routine maintenance, repairs, and minor tooling are expensed as incurred.

Depreciation is computed by the straight-line method over the estimated lives of individual assets.

Excess of cost over purchased net assets:

The excess of cost over purchased net assets is being carried at cost and is not being amortized because, in the opinion of management, there has not been any decrease in the value of this asset.

Product development:

Major expenditures for new product development are deferred and amortized over a period not exceeding five years.

Warranties:

A significant percentage of net sales is covered by performance warranties, which as to certain components thereof, extend beyond one year. Approximately one-half of such warranty obligations are accounted for by the accrual method at time of sale and the other half is accounted for on a modified cash basis which provides a warranty reserve for unanticipated contingencies.

Income taxes:

Income taxes are reduced by benefits earned under the DISC export sales legislation and investment tax credits which are accounted for by the flow-through method. Deferred taxes arise from timing differences between financial and tax reporting and relate principally to depreciation and the recognition of income on certain long-term construction contracts.

It is the policy of the Corporation to provide appropriate U.S. and foreign income taxes on earnings of subsidiary companies which are intended to be remitted to the parent company in the near future. Unremitted earnings of subsidiaries which are intended to be permanently reinvested for foreign operations, exclusive of those amounts which if remitted in the near future would result in little or no tax, approximated $3,600,000 at December 31, 1973.

NOTE B — INVENTORIES

Inventories consist of the following:

	December 31 1973	December 31 1972
Finished products, merchandise, and service parts	**$ 94,394,665**	$111,523,272
Manufacturing and contract work in process, raw materials and supplies, less contract progress billings of $38,808,649 in 1973 and $18,350,591 in 1972	**128,816,472**	102,893,825
TOTALS	**$223,211,137**	$214,417,097

NOTE C — LONG-TERM NOTES AND MORTGAGES

	December 31 1973	December 31 1972
Promissory notes to institutional investors maturing in 1991 — 9¾%	**$100,000,000**	$100,000,000
Revolving notes to banks — interest at ¾% over prime rate	**27,500,000**	—
Unsecured notes to banks — interest at ¾% over prime rate — the balance at December 31, 1973, is payable in quarterly installments of $450,000 to 1978	**8,100,000**	26,250,000
Capitalized lease obligations and other debt — payable to 1993 with an average interest rate of approximately 5%	**23,278,662**	24,810,528
	158,878,662	151,060,528
Less current maturities	**6,524,468**	21,692,435
TOTALS	**$152,354,194**	$129,368,093

The Promissory Note Purchase Agreement, which is the most restrictive of the Corporation's borrowing agreements, places certain restrictions on the Corporation including the payment of cash dividends on Common Stock and requires the maintenance of working capital, as defined, of not less than $225,000,000. Approximately $17,600,000 of retained income was available for payment of cash dividends on Common Stock at December 31, 1973. These notes require annual payments of $6,667,000 from 1977 through 1991.

Under a Loan Agreement with certain banks, a long-term revolving credit arrangement is available to the Corporation during 1974 in the maximum amount of $45,000,000. This amount decreases by $15,000,000 annually through 1976. The Agreement requires the Corporation to pay each bank a commitment fee of ½% based on its average daily unused balance. There are no compensating balance requirements under any of the loan agreements.

Aggregate maturities of long-term notes and mortgages during the several years following 1974 are: 1975 — $21,233,832; 1976 — $20,089,213; 1977 — $9,235,002; and 1978 — $8,246,916.

NOTE D — CONVERTIBLE SUBORDINATED DEBENTURES

The 5½% debentures are due in 1992 with 5% sinking fund payments commencing in 1978 and are convertible into shares of Common Stock at the rate of one share for each $25.73 of debentures. The debentures are redeemable by the Corporation at $103.85 (such redemption price declining by $.275 each year to 1987). Approximately 2,003,500 common shares were reserved for conversion of the debentures at December 31, 1973.

NOTE E — PREFERRED STOCK

Serial Preferred Stock, $3.00 — par value, $50.00 a share, consists of:

	December 31, 1973		December 31, 1972	
	SHARES	**AMOUNT**	SHARES	AMOUNT
Authorized	1,873,315		1,970,778	
Outstanding:				
Series A	219,415	$10,970,750	243,215	$12,160,750
Series B	77,709	3,885,450	94,972	4,748,600
Series C	1,151,953	57,597,650	1,208,353	60,417,650
Less redemption requirement due within one year		(274,200)		(819,650)
TOTALS		$72,179,650		$76,507,350

The Serial Preferred Stock is entitled to receive cumulative cash dividends at the rate of $3.00 a share per annum before any dividends are paid upon or set apart for Common Stock. Upon involuntary liquidation, the holder of each share is entitled to $50.00, plus accumulated unpaid dividends, and such shares are redeemable, at the option of the Corporation, as to Series A at $51.00 a share and as to Series B and Series C at $52.00 a share (such redemption prices declining by $.50 each year to $50.00 a share). The Corporation is required to redeem at $50.00 a share specified amounts of such shares as to Series A and Series B, and beginning in 1974 as to Series C.

During the year, the Corporation purchased 23,800 shares of Series A in satisfaction of the 1973 redemption requirement and a portion of the 1974 requirement; 17,263 shares of Series B in satisfaction of the 1973, 1974, and 1975 redemption requirements and a portion of the 1976 requirement; and 56,400 shares of Series C in satisfaction of a portion of the 1974 redemption requirement. On or before August 1, 1974, such redemption provisions require the retirement of an additional 1,466 shares ($73,300) of Series A and on or before March 31, 1974, 4,018 shares ($200,900) of Series C, which shares may be purchased in the open market.

NOTE F — STOCK OPTIONS

The Corporation has granted options to key employees to purchase Common Stock at or above market price at date of grant. The options expire five years from date of grant and become exercisable in scheduled amounts on a cumulative basis during the life of the respective options. A summary of option transactions during the two years ended December 31, 1973 follows:

	NUMBER OF SHARES	OPTION PRICES RANGE PER SHARE	OPTION PRICES TOTAL	MARKET PRICE
Year ended December 31, 1972:				
Granted	155,500	$15.25	$2,371,375	$2,371,375
Became exercisable	98,749	10.68 to 21.62	1,823,294	1,759,206
Exercised	22,029	10.68 to 17.76	287,259	495,703
Terminated	57,033	10.68 to 22.23	905,123	
Expired	24,377	17.76 to 22.23	521,872	
Year ended December 31, 1973:				
Granted	267,472	12.62 to 17.25	4,576,892	4,576,892
Became exercisable	98,958	10.68 to 20.75	1,589,495	1,530,265
Exercised	14,649	10.68	156,420	225,289
Terminated	262,217	15.25 to 21.62	5,652,245	
Expired	3,925	21.62	84,975	
At December 31, 1973:				
Outstanding	462,008	10.68 to 20.75	7,576,206	
Exercisable	147,987	10.68 to 20.75	2,439,218	
Reserved for future options	6,458			

There have been no charges or credits to income in connection with such options, and none are anticipated.

NOTE G — INCOME TAXES

Income tax expense is reduced by the effect of tax benefits related to the utilization of Canadian tax operating loss carryovers on which the tax benefits had not previously been provided, permanent timing differences under Domestic International Sales Corporation legislation, and investment tax credits. Equity in earnings of nonconsolidated foreign companies is included in other income on an after tax basis, and accordingly, no taxes thereon are included in income tax expense.

	December 31 1973	December 31 1972
Taxes paid or payable	**$27,780,532**	$22,240,543
Deferred tax effect on timing differences	**(475,532)**	3,121,936
INCOME TAX EXPENSE	**$27,305,000**	$25,362,479

On February 8, 1971, the Corporation sold capital stock of another company for $58,361,581 and, as of December 31, 1970, recorded the loss (claimed as an ordinary loss deduction on its 1971 federal income tax return) of $63,255,919 less the related deferred tax benefits of $30,362,841. Counsel for the Corporation has advised that it was appropriate for the Corporation to claim an ordinary deduction for the loss on its federal income tax return, and to maintain such claim, if it becomes necessary, both in administrative proceedings and in litigation. The Corporation intends to pursue its claim for ordinary loss treatment through all available procedures, including litigation.

NOTE H — EXTRAORDINARY ITEMS

Extraordinary items consist of the following:	
Gain on sale of the assets and business of a subsidiary — net of applicable taxes of $3,660,027	$ 3,600,000
Loss on discontinued product lines — net of applicable tax benefits of $2,859,145 (including deferred taxes of $1,350,264)	(3,073,000)
TOTAL	$ 527,000

NOTE I — PENSION PLANS

The Corporation has many pension plans including deferred compensation plans. Total pension expense for 1973 of $12,462,208 ($10,983,192 in 1972) generally included amortization of prior service cost. In general, accrued pension costs are funded. The actuarially computed values of vested benefits at the latest valuation dates (principally January, 1973) exceeded the total of the pension funds and balance sheet accruals at December 31, 1973, by approximately $35,600,000.

NOTE J — LEASES

Rental expense and future minimal rental commitments under noncancelable leases, related primarily to building space and equipment, are insignificant.

NOTE K — CONTINGENT LIABILITIES

The Corporation is contingently liable for certain notes receivable (principally secured by title retention contracts or chattel mortgages on equipment) sold with recourse ($10,900,000), for dealer finance repurchase agreements ($14,500,000) and debt obligations, all aggregating approximately $28,700,000 at December 31, 1973. In the opinion of management, adequate reserves have been provided.

Directors

DR. EDWARD L. BOWLES
Wellesley, Mass.

VOLLMER W. FRIES
Coral Gables, Fla.

J. KENNETH HALL
New York, N. Y.

CHARLES F. HAUCK
Pittsburgh, Pa.

JAMES H. HIGGINS
Pittsburgh, Pa.

ROY H. HOLDT
Cleveland, Ohio

MURRAY W. KEELER
Jamestown, R. I.

JAMES LEIPNER
New York, N. Y.

HUBERT T. MANDEVILLE
New York, N. Y.

EDWARD S. REDDIG
Cleveland, Ohio

HENRY S. REDDIG
Cleveland, Ohio

JOHN T. SCOTT, JR.
Cleveland, Ohio

ALLAN K. SHAW
Cleveland, Ohio

WARD SMITH
Cleveland, Ohio

W. CORDES SNYDER, JR.
Pittsburgh, Pa.

CHARLES M. THORP, JR.
Pittsburgh, Pa.

KARL E. WARE
Cleveland, Ohio

ALFRED S. WOODWORTH
Boston, Mass.

Officers

EDWARD S. REDDIG
Chairman of the Board and
Chief Executive Officer

ROY H. HOLDT
President and Chief Operating Officer

HENRY S. REDDIG
Senior Executive Vice President

WARD SMITH
Executive Vice President

KARL E. WARE
Executive Vice President

VINCENT A. CHIARUCCI
Group Vice President

HARRY S. COX
Vice President and Treasurer

RAYMOND G. DAUSCHER
Secretary and Corporate General Counsel

RICHARD E. ISAACSON
Group Vice President

JOHN J. LENNON
Vice President — Administration

DAVID LONGMUIR
Vice President — Industrial Relations

ALFRED G. MUGFORD
Group Vice President

PAUL F. SALIPANTE
Group Vice President

ROBERT J. SCHENK
Vice President and Controller

JOHN B. SCHULZE
Group Vice President

ERNST W. SPANNHAKE
Vice President and Chief Engineer

HARRY D. WELLER, JR.
Vice President — Marketing

BRIAN J. CONNOR, JR.
Director of Advertising

JAMES C. HUGHES
Assistant Treasurer

W. DERALD HUNT
Director of Taxes

GAY REDDIG MAYL
Director of Insurance and Pensions

F. M. RASMUSSEN
Assistant Secretary

FLOYD E. SHANK
Assistant Secretary and Assistant Treasurer

The White Consolidated Companies:

ALABAMA	Cullman — Americold Compressor Corporation *Principal Product: Compressors*
CALIFORNIA	Paramount — Air Wall *Principal Product: Partitions*
CONNECTICUT	Bridgeport — The Bullard Company *Principal Product: Machine Tools* Bridgeport — Bullard Castings, Inc. *Principal Product: Quality Gray Iron Castings*
GEORGIA	Waynesboro — Perfection Products *Principal Products: Space and Infra-Red Heaters*
ILLINOIS	Aurora — Aurora Steel Products *Principal Products: Steel Shelving and Lockers* Aurora — Richards-Wilcox Mfg. Co. *Principal Products: Conveyors, Moveable Walls, Industrial Doors* Mattoon — Blaw-Knox Construction Equipment, Inc. *Principal Product: Asphalt Paving Equipment*
INDIANA	East Chicago — Blaw-Knox Foundry & Mill Machinery, Inc. *Principal Products: Mill Machinery, Rolls and Castings*
IOWA	Jefferson — Franklin Manufacturing Co. *Principal Product: Automatic Washer Transmissions* Webster City — Franklin Manufacturing Co. *Principal Product: Home Laundry Appliances* Webster City — Hamilton Appliance Company *Principal Product: Home Laundry Appliances*
MAINE	Dexter — Fayscott Landis Machine Corporation *Principal Product: Shoe Repair Machinery* Dexter — Leland-Gifford Company *Principal Product: Machine Tools* Portland — Loren Dyer Co., Inc. *Principal Product: Industrial Supplies*
MASSACHUSETTS	Burlington — Jerguson Gage & Valve Company *Principal Products: Valves and Gages* Whitinsville — American Type Founders Co., Inc. *Principal Product: Printing Equipment* Whitinsville — Davidson Printing Equipment, Inc. *Principal Product: Printing Equipment* Whitinsville — Whitin Machine Works, Inc. *Principal Product: Textile Preparatory Machinery*
MICHIGAN	Belding — Belding Products Corporation *Principal Product: Room Air Conditioners* Detroit — Boyer-Campbell & Sales, Inc. *Principal Product: Industrial Supplies* Grand Rapids — Kelvinator, Inc. *Principal Product: Major Appliances* Grand Rapids — GR Manufacturing Co. *Principal Products: Refrigerators and Electric Ranges* Grand Rapids — Kelvinator Compressor Company *Principal Product: Compressors* Grand Rapids — Kelvinator Appliance Company *Principal Product: Major Appliances* Grand Rapids — Kelvinator International Corporation *Principal Product: Major Appliances* Greenville — Gibson Products Corporation *Principal Product: Major Appliances* Greenville — Gibson Appliance Corporation *Principal Product: Major Appliances* Greenville — Gibson International Corporation *Principal Product: Major Appliances* Greenville — Greenville Products Corporation *Principal Products: Refrigerators and Freezers* Pontiac — Briney Bushing, Inc. *Principal Product: Drill Bushings*
MINNESOTA	Minneapolis — Franklin Manufacturing Co. *Principal Product: Appliance Service Parts* St. Cloud — Franklin Manufacturing Co. *Principal Product: Major Appliances*

MISSOURI	Joplin — King Press, Inc. *Principal Product: Printing Equipment*
NEW HAMPSHIRE	Laconia — Scott & Williams, Inc. *Principal Product: Knitting Machinery*
NEW JERSEY	Elizabeth — American Type Founders Co., Inc. *Principal Product: Printing Equipment*
NEW YORK	Buffalo — Blaw-Knox Food & Chemical Equipment, Inc. *Principal Product: Food & Chemical Processing Equipment* Dunkirk — Marsh Valve Co. *Principal Products: Brass Valves and Castings* New York City — Standard Sewing Equipment Corp. *Principal Product: Sewing Machines*
NORTH CAROLINA	Charlotte — Whitin Machine Works, Inc. *Principal Product: Textile Preparatory Machinery*
OHIO	Cleveland — Apex Fibre-Glass Products *Principal Product: Fibre-Glass Products* Cleveland — Hupp, Inc. *Principal Products: Condensers, Vehicle Heaters* Cleveland — The Lees-Bradner Company *Principal Product: Machine Tools* Cleveland — Strong, Carlisle & Hammond *Principal Product: Industrial Supplies* Cleveland — Typhoon Air Conditioning Company *Principal Product: Air Conditioning Equipment* Cleveland — White Sewing Machine Company *Principal Product: Sewing Machines*
ONTARIO	Galt — Franklin Manufacturing Co. (Canada) Ltd. *Principal Product: Major Appliances* Guelph — WCI Canada Limited *Principal Product: Major Appliances* Guelph — Refrigeration Supplies Co., Ltd. *Principal Product: Appliance Service Parts* Scarborough — White Consolidated Industries, Ltd. *Principal Product: Sewing Machines*
PENNSYLVANIA	Allentown — Sarco Company, Inc. *Principal Products: Valves and Controls* Blawnox — Blaw-Knox Equipment, Inc. *Principal Products: Mill Equipment, Steel Forms, Grating, Cast Tubing* Blawnox — National Alloy Company *Principal Products: Centrifugal Cast Alloy Tubing and Castings* Ellwood City — Aetna-Standard Engineering Co. *Principal Products: Processing and Finishing Equipment for Steel Industry* Fairview — Specialty Valve & Controls *Principal Products: Valves and Controls* Lake City — Copes-Vulcan, Inc. *Principal Products: Valves, Soot Blowers* Pittsburgh — Blaw-Knox Foundry & Mill Machinery, Inc. *Principal Products: Mill Machinery, Iron and Steel Rolls, Castings* Scottdale — The Duraloy Company *Principal Product: High Temperature Castings*
QUEBEC	L'Assomption — Hupp Canada Ltd. *Principal Products: Major Appliances*
TENNESSEE	Athens — Athens Stove Works, Inc. *Principal Product: Gas Ranges*
WEST VIRGINIA	Wheeling — Blaw-Knox Foundry & Mill Machinery, Inc. *Principal Products: Mill Machinery, Iron and Steel Rolls*
WISCONSIN	Manitowoc — Kelvinator Commercial Products, Inc. *Principal Product: Commercial Refrigeration*
ENGLAND	Bromborough — Kelvinator Limited *Principal Product: Major Appliances* Winsford — Copes-Regulators, Ltd. *Principal Product: Regulators and Desuperheaters*
FRANCE	Paris — Compagnie Francaise Blaw-Knox S.A. *Principal Products: Construction Equipment and Steel Forms*
JAPAN	Tokyo — Blawknox Japan Co., Ltd. *Principal Products: Mill Equipment and Food Processing Equipment*
MEXICO	Mexico City — Wirz y Machuca, S.A. *Principal Products: Screw Conveyors and Bucket Elevators*

White Consolidated Industries, Inc.

Annual Report for the year ended December 31, 1973.

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